

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Shiawassee Area Transportation Agency	County Shiawassee
Fiscal Year End September 30, 2007	Opinion Date January 18, 2008	Date Audit Report Submitted to State February 13, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

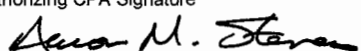
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens, CPA		License Number 1101024055

**Shiawassee Area Transportation Agency
Owosso, Michigan**

FINANCIAL STATEMENTS

September 30, 2007

Shiawassee Area Transportation Agency
BOARD MEMBERS AND ADMINISTRATION

September 30, 2007

Governing Board

Joe DeCaire	Caledonia Representative
Joe Sawyer	Corunna Representative
Charles Spring	Corunna Representative
Brian Boggs	Durand Representative
Cameron Canute	Durand Representative
Robert Bluedorn	Owosso Representative
Michael Cline	Owosso Representative
James Huguelet	Perry Representative
Mark Landers	Perry Representative
Donald Trap	RESO Representative
Jill Young	RESO Representative

Administration

Lawrence Alpert	Executive Director
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Shiawassee Area Transportation Agency

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Shiawassee Area Transportation Agency
Owosso, Michigan

We have audited the accompanying financial statements of the Shiawassee Area Transportation Agency as of and for the year ended September 30, 2007, as listed in the Table of Contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Agency's 2006 financial statements and, in our report dated on November 22, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Shiawassee Area Transportation Agency as of September 30, 2007, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2008, on our consideration of the Shiawassee Area Transportation Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Shiawassee Area Transportation Agency's basic financial statements. The Other Supplementary Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Shiawassee Area Transportation Agency. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

January 18, 2008

Shiawassee Area Transportation Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

The intent of the management's discussion and analysis is to provide highlights of the Agency's financial activities for the Fiscal Year ended September 30, 2007. Readers are encouraged to read this section in conjunction with the basic financial statements.

FINANCIAL HIGHLIGHTS

- **Assets:** The assets of the Agency exceed its liabilities by \$1,561,189 (net assets). Of this amount, \$344,660 (unrestricted net assets) may be used to meet the Agency's ongoing obligations to citizens and creditors. The total net assets increased by \$219,945.
- **Unrestricted Net Assets:** At the end of the current fiscal year, the unrestricted net assets balance for the Agency was \$344,660, or approximately 34% of total expenses. At the end of the prior fiscal year, the unrestricted net assets balance for the Agency was \$318,826, which was approximately 33% of last year's total expenses.
- **Federal & State Funding of Capital Projects:** Shiawassee Area Transportation Agency is eligible for grants through the Michigan Department of Transportation and the U.S. Department of Transportation. During the fiscal year ending September 30, 2007, the Agency recognized \$309,610 more in capital grant revenue. This increase was due to capital grants being received in fiscal year 2007 for the purchase of buses.

REQUIRED FINANCIAL STATEMENTS

The financial statements report information of the Agency using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of the Agency's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Agency creditors (liabilities). It also provides the basis for evaluating the capital structure of the Agency and assessing the liquidity and financial flexibility of the Agency.

All of the fiscal year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Fund Net Assets. This statement measures the success of the Agency's operations over the past year and can be used to determine whether the Agency has successfully recovered its costs through user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for and what was the change in the cash balance during the report period.

FINANCIAL ANALYSIS OF SHIAWASSEE AREA TRANSPORTATION AGENCY

The Statement of Net Assets and the Statement of Activities provide the information to determine how the Agency did financially during 2006-7. The net assets, or the difference between assets and liabilities, and the changes in them can indicate whether financial health is improving or deteriorating over time. However, other non-financial factors such as changes in economic conditions, service area and new or changed government legislation also need to be considered in determining the Agency's financial health.

NET ASSETS

The Agency's Comparative Condensed Statements of Net Assets and Revenue, Expenses and Changes in Fund Net Assets are presented in the following Tables.

Shiawassee Area Transportation Agency
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2007

TABLE 1
CONDENSED STATEMENT OF NET ASSETS

	Fiscal Year 2005-6	Fiscal Year 2006-7
Current Assets	\$ 356,837	\$ 386,198
Capital Assets, net	<u>977,070</u>	<u>1,216,529</u>
Total Assets	1,333,907	1,602,727
Current Liabilities	<u>38,011</u>	<u>41,538</u>
Invested in Capital Assets	977,070	1,216,529
- Unrestricted	<u>318,826</u>	<u>244,660</u>
Total Net Assets	<u>\$ 1,295,896</u>	<u>\$ 1,561,189</u>

TABLE 2
CONDENSED STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN FUND NET ASSETS

	Fiscal Year 2005-6	Fiscal Year 2006-7
Operating Revenues	\$ 232,788	\$ 268,198
Nonoperating Revenues	<u>672,399</u>	<u>974,156</u>
Total Revenues	905,187	1,242,354
Depreciation Expense	132,715	155,049
Other Operating Expenses	<u>829,602</u>	<u>871,360</u>
Total Expenses	<u>962,317</u>	<u>1,026,409</u>
Change in Net Assets	(57,130)	215,945
Restated Beginning Net Assets	<u>1,353,026</u>	<u>1,345,244</u>
Ending Net Assets	<u>\$ 1,295,896</u>	<u>\$ 1,561,189</u>

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Fund Net Assets shows that the operating loss before intergovernmental (nonoperating) revenues was a factor in the Change in Net Assets. In addition, the depreciation expense of \$155,049 is a non-cash expense which represents the reduction in the value of the facility and buses. Due to the nature of the Agency's capital improvement plan, this cost is not considered in the day-to-day fiscal management process because of the capital grants available through State and Federal funding.

The Agency's operating revenues increased approximately 15% over the prior year, which was not considered to be a material change. Operating expenses increased approximately 7%, mainly due to increased contractual services and depreciation expense.

The Agency's nonoperating revenues increased by approximately \$301,757, or about 45% over the prior year. This increase is due primarily to capital grant revenue being received in fiscal year 2007 for the purchase of buses.

Shiawassee Area Transportation Agency
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

CAPITAL ASSETS

The acquisition of new buses is generally funded by (80%) Federal sources and (20%) State match from the Michigan Department of Transportation. This allows for the Agency to maintain its fleet at an average life of five (5-6) years. This funding source also allows the Agency to use all of its operating revenues on daily services and not tie up those incomes with debt payments for equipment or the facility.

TABLE 3
CAPITAL ASSETS

	Fiscal Year <u>2005-6</u>	Fiscal Year <u>2006-7</u>
Land	\$ 15,233	\$ 15,233
Buildings and improvements	838,428	838,428
Vehicles	632,411	903,353
Equipment	<u>61,814</u>	<u>47,933</u>
Subtotal	1,547,886	1,804,947
Less: Accumulated depreciation	<u>(570,816)</u>	<u>(588,418)</u>
Net property and equipment	<u>\$ 977,070</u>	<u>\$ 1,216,529</u>

The Agency's Capital Plan includes bus acquisition. Federal grants have been sought and awarded to upgrade and replace equipment and buses. Note C to the financial statements provides additional information regarding capital assets.

DEBT ADMINISTRATION

The Agency carries no long-term debt as any improvements to the fleet or facilities have all been secured by state or federal projects. This allows the Agency to avoid any debt other than current liabilities in the normal operation of the system.

ECONOMIC FACTORS

Many of the funds that subsidize the transportation operation are appropriated by both State and Federal legislation. These funds have remained relatively consistent; however, fluctuations in future funding levels may occur depending upon economic conditions at local, state, and federal levels.

CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact the Executive Director of Shiawassee Area Transportation Agency at 180 North Delaney Road, Owosso, MI 48867, (989)729-2687.

BASIC FINANCIAL STATEMENTS

Shiawassee Area Transportation Agency

STATEMENT OF NET ASSETS

September 30, 2007 and 2006

	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	\$ 260,379	\$ 292,992
Investments	1,012	-
Accounts receivable	22,691	29,631
Due from state government	59,153	14,613
Due from federal government	40,192	16,830
Inventory	2,696	2,696
Prepays	75	75
Total current assets	386,198	356,837
Noncurrent assets		
Capital assets not being depreciated	15,233	15,233
Capital assets, net of accumulated depreciation	1,201,296	961,837
Total noncurrent assets	1,216,529	977,070
TOTAL ASSETS	1,602,727	1,333,907
LIABILITIES		
Current liabilities		
Accounts payable	28,755	25,502
Accrued payroll	12,488	7,523
Other accrued liabilities	295	4,986
TOTAL LIABILITIES	41,538	38,011
NET ASSETS		
Invested in capital assets	1,216,529	977,070
Unrestricted	344,660	318,826
TOTAL NET ASSETS	<u>\$ 1,561,189</u>	<u>\$ 1,295,896</u>

See accompanying notes to financial statements.

Shiawassee Area Transportation Agency

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Sales and charges for services	\$ 268,198	\$ 232,788
OPERATING EXPENSES		
Administrative	295,956	303,224
Operations	650,670	592,758
Maintenance	<u>79,783</u>	<u>66,335</u>
TOTAL OPERATING EXPENSES	<u>1,026,409</u>	<u>962,317</u>
OPERATING (LOSS)	(758,211)	(729,529)
NONOPERATING REVENUES		
Intergovernmental		
Federal sources	141,412	130,525
State sources	388,341	366,294
Local sources	95,667	141,655
Gain from sale of capital assets	<u>5,201</u>	<u>-</u>
TOTAL NONOPERATING REVENUES	<u>630,621</u>	<u>638,474</u>
NET (LOSS) BEFORE CAPITAL GRANT REVENUE	(127,590)	(91,055)
CAPITAL GRANT REVENUE		
Federal sources	274,828	27,140
State sources	<u>68,707</u>	<u>6,785</u>
TOTAL CAPITAL GRANT REVENUE	<u>343,535</u>	<u>33,925</u>
CHANGE IN NET ASSETS	215,945	(57,130)
Restated net assets, beginning of year	<u>1,345,244</u>	<u>1,353,026</u>
Net assets, end of year	<u>\$ 1,561,189</u>	<u>\$ 1,295,896</u>

See accompanying notes to financial statements.

Shiawassee Area Transportation Agency

STATEMENT OF CASH FLOWS

Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 275,138	\$ 287,648
Cash paid to employees	(409,302)	(372,673)
Cash paid to suppliers	<u>(439,893)</u>	<u>(414,852)</u>
NET CASH (USED) BY OPERATING ACTIVITIES	(574,057)	(499,877)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Intergovernmental sources		
State and Federal grants	461,851	552,476
Local contributions	<u>77,029</u>	<u>64,710</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	538,880	617,186
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Sale of assets	5,201	-
State and Federal capital assistance	343,535	33,925
Capital acquisitions	<u>(345,160)</u>	<u>(33,924)</u>
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	3,576	1
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	<u>(1,012)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING YEAR	(32,613)	117,310
Cash and cash equivalents, beginning of year	<u>292,992</u>	<u>175,682</u>
Cash and cash equivalents, end of year	<u><u>\$ 260,379</u></u>	<u><u>\$ 292,992</u></u>

Shiawassee Area Transportation Agency

STATEMENT OF CASH FLOWS - CONTINUED

Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED) BY OPERATING ACTIVITIES:		
Operating (loss)	\$ (758,211)	\$ (729,529)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities		
Depreciation	155,049	132,715
Contributed services	18,638	76,945
Decrease in accounts receivable	6,940	54,860
(Increase) in inventory	-	(2,076)
Decrease in prepaids	-	14,192
Increase (decrease) in accounts payable	3,253	(4,828)
(Decrease) in construction payable	-	(43,488)
Increase in accrued wages	4,965	370
Increase (decrease) in other accrued liabilities	(4,691)	962
NET CASH (USED) BY OPERATING ACTIVITIES	<u>\$ (574,057)</u>	<u>\$ (499,877)</u>

See accompanying notes to financial statements.

Shiawassee Area Transportation Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Shiawassee Area Transportation Agency (SATA) was created by an agreement dated October 1, 1999, by the cities of Corunna, Durand, Owosso, Perry, and the Shiawassee Regional Education Service District (RES D) pursuant to the provisions of Public Act 7 of 1967 (extra session) as amended.

Under the agreement it was agreed:

1. Pursuant to the provision of the Act, SATA was established for the purpose of providing public transportation services in areas throughout Shiawassee County, including on-demand transportation and transport of public school students needing to reach community sites as part of their educational program.
2. A party to this agreement may withdraw from SATA after having provided written notice to the remaining parties to this agreement at least one year prior to the effective date of withdrawal.
3. Additional public agencies may become parties to this agreement upon the adoption of a resolution approved by the governing body of the public agency and with the concurrence of the other public agencies that are parties to this agreement now or in the future. The resolution shall be in the form specified by SATA's board of directors.
4. SATA shall be governed by a board of directors comprised of not more than thirteen members.
 - a. Each of the governing bodies of the cities of Corunna, Durand, Owosso, and Perry and the Shiawassee Regional Education Service District shall appoint two members to the board of directors for three year overlapping terms in accordance with the following schedule:

Perry representative	term expiring October 1, 2007
Durand representative	term expiring October 1, 2007
Owosso representative	term expiring October 1, 2007
RES D representative	term expiring October 1, 2007
Perry representative	term expiring October 1, 2007
Caledonia representative	term expiring October 1, 2007
Corunna representative	term expiring October 1, 2008
Durand representative	term expiring October 1, 2008
Owosso representative	term expiring October 1, 2009
RES D representative	term expiring October 1, 2009
Corunna representative	term expiring October 1, 2009

- b. Any public agency that shall become party to this agreement subsequent to its effective date shall appoint a single member to the board of directors. The board of directors shall determine the duration of the term of each member appointed pursuant to this subparagraph so as to equalize the number of terms expiring in any year. At such time as more than three additional agencies have become parties to this agreement, the board of directors shall establish a schedule of rotating terms to fill the three board of director positions allocated to the additional public agencies.
 - c. Whenever the total number of members appointed pursuant to subparagraphs (a) and (b) shall be an even number, the board of directors shall appoint a member-at-large. As additional public agencies become parties to this agreement and appoint members such that the total number of members appointed by public agencies is an odd number, the service of any member-at-large on the board of directors shall be terminated.

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

The accounting policies of Shiawassee Area Transportation Agency conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant policies:

1. Basis of Presentation

The accounts of SATA are organized on the basis of a fund, which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. SATA resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered through user charges.

SATA applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. SATA has elected not to follow FASB pronouncements issued after November 30, 1989 to its business-type activities and enterprise fund.

2. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Fund equity (i.e., net total assets) is segregated into invested in capital (net of related debt) and unrestricted components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

3. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred, regardless of the timing of related cash flows.

4. Cash and cash equivalents

Cash consists of checking accounts; cash equivalents consist of certificates of deposit with an original maturity of 90 days or less.

Shiawassee Area Transportation Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

5. Investments

Investment accounts include certificates of deposit with an original maturity of greater than 90 days from the date of purchase.

6. Receivables/Due from other governments

Receivables/due from other governments consist of amounts due from governmental units for various financial assistance programs and accounts receivable related to charges for services.

7. Inventories

Inventories consist of maintenance and repair parts and are valued on the average cost basis

8. Capital Assets and Long-Term Liabilities

Capital assets, which include buildings, vehicles, and equipment, are capitalized at total acquisition cost, provided such cost exceeds \$5,000 and the expected useful life of the asset is more than one year. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives are:

Buildings	20 years
Vehicles	4-7 years
Equipment	1-10 years

Long-term liabilities are recognized in the basic financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

9. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

10. Comparative Data

Comparative total data for the prior year have been presented in the selected sections of the accompanying financial statements in order to provide an understanding of the changes in the Agency's financial position and operations.

11. Cost Allocations

The Shiawassee Area Transportation Agency allocates expenses between various program activities for grant reporting purposes. The allocations are prepared based on a cost allocation plan and methodology that has been approved by the grantor agency.

Shiawassee Area Transportation Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, SATA is authorized to invest any of its funds in one (1) or more of the following:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it related to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. As of September 30, 2007, the carrying amount of the Agency's deposits was \$261,241 and the bank balance was \$285,191, of which \$151,484 was covered by federal depository insurance. The remaining balance of \$133,707 was uninsured and uncollateralized.

As of September 30, 2007, the carrying amount and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	\$ 209,757	\$ 233,707
Certificates of deposit	<u>51,484</u>	<u>51,484</u>
TOTAL	<u>\$ 261,241</u>	<u>\$ 285,191</u>

Shiawassee Area Transportation Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE B: CASH, CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

The Statement of Net Assets caption "Cash and Cash Equivalents" includes \$150 of imprest cash.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2007, SATA did not have any investments that would be subject to rating.

Interest rate risk

The Agency has not adopted a policy that indicates how the Agency will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The Agency has not adopted a policy that indicates how the Agency will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Agency's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Agency has not adopted a policy that indicates how the Agency will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007, was as follows:

	Restated Balance <u>Oct. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Sept. 30, 2007</u>
Capital assets not being depreciated:				
Land	\$ 15,233	\$ -	\$ -	\$ 15,233
Capital assets being depreciated:				
Buildings and improvements	838,428	-	-	838,428
Vehicles	632,411	345,160	(74,218)	903,353
Equipment	<u>61,814</u>	<u>-</u>	<u>(13,881)</u>	<u>47,933</u>
Total capital assets being depreciated	1,532,653	345,160	(88,099)	1,789,714

Shiawassee Area Transportation Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE C: CAPITAL ASSETS - CONTINUED

	Restated Balance <u>Oct. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Sept. 30, 2007</u>
Less accumulated depreciation for:				
Buildings and improvements	\$(84,677)	\$(41,921)	\$ -	\$(126,598)
Vehicles	(388,060)	(109,034)	74,218	(422,876)
Equipment	(48,731)	(4,094)	13,881	(38,944)
Total accumulated depreciation	(521,468)	(155,049)	88,099	(588,418)
Net capital assets being depreciated	<u>1,011,185</u>	<u>190,111</u>	<u>-0-</u>	<u>1,201,296</u>
Net Capital Assets	<u>\$ 1,026,418</u>	<u>\$ 190,111</u>	<u>\$ -0-</u>	<u>\$ 1,216,529</u>

When Federal or State funded assets are withdrawn from public transportation service, the disposition of the assets is to be determined by the United States Department of Transportation (USDOT) and the Michigan Department of Transportation (MDOT). During the year the Shiawassee Area Transportation Agency disposed of assets that were Federally and State funded with a historical cost of \$88,099. The total amount disposed of was fully depreciated. Depreciation expense in the amount of \$155,049 was reported for the year ended September 30, 2007.

NOTE D: COMPENSATED ABSENCES

Significant details related to the Agency's policy on compensated absences are as follows:

Leave time - less than two year seniority:

Full-time employees with less than two years of seniority shall accrue paid leave time at the rate of 80 hours annually. Part-time employees with less than two years of seniority whose regular work schedules are at least 20 hours per week shall accrue paid leave time at the rate of 40 hours annually. Part-time employees whose regular work schedules are fewer than 20 hours per week shall not earn paid leave time.

Leave time - two or more years of seniority:

Full-time employees with two or more years of seniority shall accrue paid leave time at the rate of 120 hours annually. Part-time employees with two or more years of seniority whose regular work schedules are at least 20 hours per week shall accrue paid leave time at the rate of 60 hours annually.

Leave time accrual:

Leave time shall be accrued on a monthly basis. The rate of accrual shall be calculated by dividing the annual rate of accrual by 12. The maximum amount of leave time that may be accumulated and used for paid leave accrued shall be 200% of the annual rate at which leave time is earned.

Compensation for unused leave time:

Unused leave time in excess of the maximum accumulated shall be paid at the rate of 50% of the employee's regular hourly rate of pay. Said payment shall be made once per year on the last payroll of the fiscal year (September).

Shiawassee Area Transportation Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE E: CONTINGENT LIABILITIES

Under the terms of various Federal and State grants, periodic compliance audits are required and certain costs may be questioned, allowed, or disallowed, which could result in funds being returned and/or received from grantor agencies.

NOTE F: DEFERRED COMPENSATION PLAN

Shiawassee Area Transportation Agency offers its employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. The assets of the plans are held in trust as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The trust requirement was designed by the Internal Revenue Service to help prevent participants from losing their retirement benefits to the claims of plan Sponsor's creditors. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of the Section 457 plan, and the assets may not be diverted to any other use.

A trust was created for the plan assets, thereby insulating the assets from SATA's general creditors. SATA's plan administrator, ICMA Retirement Corporation, created the trust and has placed the assets of the plan within the trust. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in SATA's financial statements.

NOTE G: RISK MANAGEMENT

The Agency is exposed to various risks of loss including losses related to the Agency's liability, directors and officer's liability, workers compensation, contents/equipment, and employee dishonesty for which the Agency carries commercial insurance.

NOTE H: RELATED PARTY TRANSACTIONS

The various parties to the SATA agreement provide in-kind services to SATA. SATA would have to pay for all services provided by related parties. The value of these services has been recorded as revenue and expenses at their fair value as detailed below:

	<u>2007</u>	<u>2006</u>
City of Owosso - payroll processing and personnel consulting	\$ 1,881	\$ 2,678
Shiawassee Regional Education Service District (RESA) management and accounting assistance	<u>32,333</u>	<u>46,067</u>
	<u>\$ 34,214</u>	<u>\$ 48,745</u>

NOTE I: COST ALLOCATION PLANS

The Shiawassee Area Transportation Agency has two cost allocation plans where the methodology has been approved by the BPT. The cost allocation plans are for administrative costs. This cost allocation plan was adhered to in the preparation of the financial statements.

Shiawassee Area Transportation Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE J: RESTATEMENT OF NET ASSETS

The Agency has understated the useful life for the vehicles resulting in a need to adjust prior year accumulated depreciation. As a result, beginning net assets has been restated as follows:

Net assets as of September 30, 2006	\$ 1,295,896
Overstated accumulated depreciation	<u>49,348</u>
Restated net assets as of September 30, 2006	<u>\$ 1,345,244</u>

OTHER SUPPLEMENTARY INFORMATION

Shiawassee Area Transportation Agency

SCHEDULE OF LOCAL REVENUES

Year Ended September 30, 2007

Demand response - farebox (regular)	\$ 73,065
Demand response - farebox (JARC)	2,051
Contract fares	189,753
Advertising	3,329
Gain from sale of capital assets	5,201
Tax levy	22,743
Local operating assistance	53,652
Interest	484
Contributed services	18,638
Other	<u>150</u>
TOTAL LOCAL REVENUES	<u>\$ 369,066</u>

Shiawassee Area Transportation Agency

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2007

Federal and State Grantor/Pass - Through Grantor/Program Title	Federal CFDA Number	Grant No./ Authorization Number	Program Award Amount	Current Year's Expenditures			Prior Years' Expenditures	Award Amount Remaining
				Total	Federal	State		
U.S. DEPARTMENT OF TRANSPORTATION								
Passed through Michigan Department of Transportation								
Federal Transit Capital Grants	20.500							
Section 5309 (80/20)		MI-03-0232/2002-086/Z22	\$ 77,135	\$ 70,407	\$ 56,326	\$ 14,081	\$ -	\$ 6,728
Section 5309 (80/20)		MI-03-0212/2002-0086/Z13/R1	48,543	48,543	38,834	9,709	-	-0-
Section 5309 (80/20)		MI-03-0226/2002-0086/Z19	54,663	54,663	43,730	10,933	-	-0-
Operating Assistance - Section 5311	20.509							
Capital Grant - Section 5311 (80/20)		MI-18-X036/2002-0086/Z14	468,750	112,675	90,140	22,535	271,001	85,074
Capital Grant - Section 5311 (80/20)		MI-85-X001/2007-0290/Z4	12,000	-0-	-	-	-	12,000
Capital Grant - Section 5311 (80/20)		MI-18-X034/2002-0086/Z9/R1	84,920	25,997	20,798	5,199	84,920	-0-
Capital Grant - Section 5311 (80/20)		MI-18-X038/2002-0086/Z18	31,250	31,250	25,000	6,250	-	-0-
Operating Assistance - Section 5311 FY 06		MI-03-0232/2002-0086/Z21/R1	136,220	1,463	1,463	-	127,475	7,282
Operating Assistance - Section 5311 FY 07		MI-18-X041/2007-0290/Z3/R1	135,405	126,413	126,413	-	-	8,992
Rural Transportation Assistance Program		N/A	3,500	3,500	3,500	-	-	-0-
Job Access (50/50)	20.516	MI-37-X024/2007-0290/Z2	20,084	20,071	10,036	10,035	-	13
MICHIGAN DEPARTMENT OF TRANSPORTATION								
Operating Assistance - Act 51 Nonurban	N/A							
Operating Assistance - FY06		N/A	314,544	-	-	-	297,477	17,067
Operating Assistance - FY07		N/A	307,615	289,419	-	289,419	-	18,196
Specialized Services	N/A	2002-6086/Z20	71,941	3,124	-	3,124	68,817	-0-
Specialized Services	N/A	2007-0290/Z1	78,374	78,374	-	78,374	-	-0-
TOTALS			\$1,844,944	\$ 865,899	\$ 416,240	\$ 449,659	(a) \$ 849,690	\$ 155,352

(a) The total State revenue on the Statement of Revenues, Expenditures, and Changes in Fund Net Assets is \$454,538. The total State Revenue on the Schedule of Expenditures of Federal and State Awards is \$447,149. The difference between the State revenue amounts is \$7,389, due to State operating assistance from prior years reconciliations being received in the current year.

Shiawassee Area Transportation Agency

SCHEDULE OF OPERATING AND CONTRACT EXPENSES

Year Ended September 30, 2007

	Nonurban	JARC	Specialized Services	Total
Labor	\$ 403,001	\$ 11,266	\$ -	\$ 414,267
Payroll taxes and fringe benefits	83,622	2,350	-	85,972
Professional services	81,525	1,665	-	83,190
Materials and supplies	132,831	3,449	-	136,280
Utilities	13,140	370	-	13,510
Insurance	47,179	1,358	-	48,537
Purchased service	-	-	81,498	81,498
Miscellaneous expenses	7,907	199	-	8,106
Depreciation	155,049	-	-	155,049
TOTAL EXPENSES	\$ 924,254	\$ 20,657	\$ 81,498	\$ 1,026,409

Shiawassee Area Transportation Agency

OAR SCHEDULE 4R
NONURBAN REGULAR SERVICE REVENUE REPORT

Year Ended September 30, 2007

<u>Code</u>	<u>Description</u>	<u>Amount</u>
401	Farebox revenue	
40100	Passenger fares	\$ 73,065
40200	Contract fares	184,592
406	Auxiliary transportation revenue	
40615	Advertising	3,329
407	Nontransportation revenue	
40760	Gains from the sale of capital assets	5,201
40799	Memorials	150
408	Local revenue	
40800	Tax levy	22,743
409	Local revenue	
40910	Local operating assistance	53,652
411	State formula and contracts	
41101	State operating assistance	289,419
413	Federal contracts	
41301	Section 5311	127,876
41398	RTAP	3,500
414	Other revenue	
41400	Interest income	484
430	Other revenue	
43000	Contributed services	18,638
	TOTAL NONURBAN SERVICE REVENUE	<u>\$ 782,649</u>

Shiawassee Area Transportation Agency

OAR SCHEDULE 4E
NONURBAN REGULAR SERVICE EXPENSE REPORT

Year Ended September 30, 2007

Code	Description	Operations	Maintenance	Administrative	Total
501	Labor				
50101	Operator's salaries and wages	\$ 273,621	\$ -	\$ -	\$ 273,621
50102	Other salaries and wages	-	27,364	47,706	75,070
50103	Dispatchers' salaries and wages	54,310	-	-	54,310
502	Fringe benefits				
50200	Payroll taxes and fringe benefits	50,843	12,385	20,394	83,622
503	Services				
50302	Advertising fees	-	-	2,226	2,226
50305	Audit cost	-	-	5,640	5,640
50399	Other services	22,574	13,914	37,171	73,659
504	Materials and supplies				
50401	Fuel and lubricants	101,998	-	-	101,998
50402	Tires and tubes	4,277	-	-	4,277
50499	Other materials and supplies	350	23,621	2,585	26,556
505	Utilities				
50500	Utilities	-	-	13,140	13,140
506	Insurance				
50603	Liability insurance	43,174	-	-	43,174
50699	Other insurance	-	-	4,005	4,005
509	Miscellaneous expenses				
50902	Travel, Meetings & Training	3,009	294	2,558	5,861
50903	Association Dues & Subscriptions	-	-	2,046	2,046
513	Depreciation				
51300	Depreciation	-	-	155,049	155,049
550	Less ineligible expenses				
55007	Ineligible depreciation	-	-	154,559	154,559
55008	Ineligible contributed services	9,920	5,177	1,589	16,686
55009	Ineligible association dues	-	-	54	54
560	Less ineligible expenses				
56002	Ineligible expenses associated with advertising revenue	-	-	419	419
574	Ineligible expenses				
57402	Ineligible RTAP	1,504	157	1,472	3,133
Total expenses					924,254
Total ineligible expenses					174,851
Total eligible expenses					<u>\$ 749,403</u>

Shiawassee Area Transportation Agency

OAR SCHEDULE 4N
NONURBAN REGULAR SERVICE NONFINANCIAL REPORT

Year Ended September 30, 2007

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle miles (1)	371,757	-	-	371,757

(1) The methodology used for compiling vehicle miles has been reviewed and found to be an adequate and reliable method for recording vehicle miles.

Shiawassee Area Transportation Agency

OAR SCHEDULE 4R
JOB ACCESS REVENUE REPORT

Year Ended September 30, 2007

<u>Code</u>	<u>Description</u>	<u>Amount</u>
401	Farebox revenue	
40100	Passenger fares	\$ 2,051
40200	Contract fares	5,161
411	State contracts	
41199	Job Access	10,035
413	Federal contracts	
41399	Job Access	<u>10,036</u>
TOTAL JOB ACCESS REVENUE		<u><u>\$ 27,283</u></u>

Shiawassee Area Transportation Agency

OAR SCHEDULE 4E
JOB ACCESS EXPENSE REPORT

Year Ended September 30, 2007

Code	Description	Operations	Maintenance	Administrative	Total
501	Labor				
50101	Operator's salaries and wages	\$ 7,702	\$ -	\$ -	\$ 7,702
50102	Other salaries and wages	-	771	1,287	2,058
50103	Dispatchers' salaries and wages	1,506	-	-	1,506
502	Fringe benefits				
50200	Payroll taxes and fringe benefits	1,232	325	653	2,210
50201	Pensions	-	140	-	140
503	Services				
50302	Advertising fees	-	-	63	63
50305	Audit cost	-	-	160	160
50399	Other services	494	338	610	1,442
504	Materials and supplies				
50401	Fuel and lubricants	2,586	-	-	2,586
50402	Tires and tubes	122	-	-	122
50499	Other materials and supplies	46	622	73	741
505	Utilities				
50500	Utilities	-	-	370	370
506	Insurance				
50603	Liability insurance	1,244	-	-	1,244
50699	Other insurance	-	-	114	114
509	Miscellaneous expenses				
50902	Travel, meetings & training	84	9	72	165
50903	Association dues & subscriptions	-	-	34	34
550	Less ineligible expenses				
55008	Ineligible contributed services	71	60	380	511
560	Less ineligible expenses				
56002	Ineligible expenses associated with advertising revenue	-	-	12	12
574	Ineligible expenses				
57402	Ineligible RTAP	-	-	63	63
Total expenses					20,657
Total ineligible expenses					586
Total eligible expenses					<u>\$ 20,071</u>

Shiawassee Area Transportation Agency

OAR SCHEDULE 4N
JOB ACCESS NONFINANCIAL REPORT

Year Ended September 30, 2007

<u>Code</u>	<u>Description</u>		<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle miles	(1)	6,870	188	3,114	10,172

- (1) The methodology used for compiling vehicle miles was reviewed and found to be an adequate and reliable method for recording vehicle miles.

Shiawassee Area Transportation Agency

OAR SCHEDULE 4R
SPECIALIZED SERVICES REVENUE REPORT

Year Ended September 30, 2007

<u>Code</u>	<u>Description</u>	<u>Amount</u>
411	State contracts	
41199	Other State contracts and reimbursements	<u>\$ 81,498</u>
TOTAL SPECIALIZED SERVICES REVENUE		<u><u>\$ 81,498</u></u>

Shiawassee Area Transportation Agency

OAR SCHEDULE 4E
SPECIALIZED SERVICES EXPENSE REPORT

Year Ended September 30, 2007

Code	Description	Operations	Maintenance	Administrative	Total
508	Purchased transportation service				
50800	Purchased transportation service	\$ 81,498	\$ -	\$ -	\$ 81,498
Total expenses					81,498
Total ineligible expenses					-
Total eligible expenses					<u>\$ 81,498</u>

Shiawassee Area Transportation Agency

OAR SCHEDULE 4N
SPECIALIZED SERVICES NONFINANCIAL REPORT

Year Ended September 30, 2007

Code	Description	Agency	Volunteer	Total
611	Vehicle miles (1)	51,918	-	51,918

(1) The methodology used for compiling vehicle miles was reviewed and found to be an adequate and reliable method for recording vehicle miles.

Shiawassee Area Transportation Agency
OPERATING ASSISTANCE CALCULATION
Year Ended September 30, 2007

	<u>Nonurban</u>
Total expenses	\$ 924,254
Less ineligible expenses	
RTAP	3,133
Contributed services	16,686
Advertising revenue	419
Depreciation	154,559
Association dues	<u>54</u>
Total ineligible expenses per R&E manual	<u>174,851</u>
TOTAL STATE ELIGIBLE EXPENSES	<u><u>\$ 749,403</u></u>
Eligible expenses for State reimbursement	\$ 749,403
x Reimbursement percentage	<u>0.3862</u>
State operating assistance (not to exceed \$307,615)	<u><u>\$ 289,419</u></u>
Less additional Federal ineligible expenses	
Audit costs	<u>\$ 5,800</u>
Eligible expenses for Federal reimbursement	\$ 743,603
x Reimbursement percentage	<u>0.1700</u>
Federal section 5311 operating assistance (not to exceed \$135,405)	<u><u>\$ 126,413</u></u>

Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Shiawassee Area Transportation Agency
Owosso, Michigan

We have audited the basic financial statements of the Shiawassee Area Transportation Agency as of and for the year ended September 30, 2007, and have issued our report thereon dated January 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly we do not express an opinion on the effectiveness of the Agency's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

2007-1 PREPARATION OF FINANCIAL STATEMENTS

Criteria: Governmental entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Shiawassee County Transportation Agency rests with management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

2007-1 PREPARATION OF FINANCIAL STATEMENTS - CONTINUED

Condition: It has historically been common for many small to medium-sized governments to rely on the independent auditors to assist in the preparation of the financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

The condition noted in the preceding paragraph exists at the Shiawassee Area Transportation Agency. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

Effect: As a result of this condition, the employees and/or management may not possess the qualifications necessary to prepare the Shiawassee Area Transportation Agency's annual financial statements and notes to the financial statements in accordance with GAAP. The Shiawassee Area Transportation Agency relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

Recommendation: We recommend the Agency consider obtaining the proper training for the appropriate staff members to assure that they are able to fully understand what goes into the preparation of the annual audited financial statements and so that they can take responsibility for the preparation of the annual audited financial statements, assure there are no material misstatements, and assure there are appropriate disclosures in accordance with accounting principles generally accepted in the United States of America.

Corrective Action Response: We intend to obtain the proper training as well as consider contracting with a vendor to assist in the preparation of financial statements prior to our FY 2008 audit.

2007-2 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

Condition: Material journal entries were proposed by the auditors to properly account for items such as capital asset activity and grants receivable. These misstatements were not detected by the Agency's internal control over financial reporting.

Effect: Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the Agency's internal controls.

Recommendation: We recommend that the Agency take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: We intend to ensure that material journal entries are not necessary by the time of the FY 2008 audit.

2007-3 PRIOR PERIOD ADJUSTMENTS

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

Condition: As indicated in the basic financial statements, beginning net assets were restated to correctly reflect the amount of capital assets, net of accumulated depreciation from prior year. The restatement required was related to vehicle depreciation not accurately computed due to an understatement of useful life.

2007-3 PRIOR PERIOD ADJUSTMENTS - CONTINUED

Effect: Through the identification of the need to restate net assets, which would not otherwise have been identified by management, the auditors are effectively part of the Agency's internal controls.

Recommendation: We recommend that the agency take steps to ensure that prior period adjustments are not necessary at the time future audit analysis is performed.

Corrective Action Response: We intend to ensure that prior period adjustments are not necessary by the time of the FY 2008 audit.

2007-4 INVESTMENT POLICY

Criteria: GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Agency's ability to provide services and meet its obligations as they become due.

Condition: During the course of our audit and through discussions with administration, it was noted that the Agency has not adopted or amended an investment policy to address the various types of investment risk as described in GASB Statement No. 40. This issue was noted and reported in our audit comments last year.

Effect: There is no policy established to inform users of deposit and investment risks that may affect the Agency's ability to provide services. As a result, the notes to the Agency's financial statements state that no such policy exists.

Recommendation: It is recommended that the board adopt an investment policy to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Corrective action response: We intend to adopt an investment policy which addresses these concerns before September 30, 2008..

2007-5 FRAUD RISK MANAGEMENT PROGRAM

Criteria: A fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also inform management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

Condition: During the course of our audit it was noted that in the Agency has not adopted a formal anti-fraud program. Anti-fraud programs should be part of the Agency's internal controls to allow employees avenues to communicate fraud to responsible officials of the Agency. This issue was noted and reported in our audit comments last year.

Effect: The Agency's internal controls over financial reporting are not as strong as they could be as there is an absence of an internal process to report deficiencies in internal control to management on a timely basis.

Recommendation: It is recommended that the Agency adopt a formal fraud risk management program.

Corrective Action Response: We intend to adopt a fraud risk management policy which addresses these concerns before September 30, 2008.

2007-6 CONFLICT OF INTEREST POLICY

Criteria: A conflict of interest policy will clarify the Agency's position on ethical behavior and communicate that position to employees and board members.

Condition: During the course of our audit it was noted that the Agency has not adopted a formal conflict of interest policy. A policy on conflict of interest should be a part of the Agency's internal controls to communicate to employees the Agency's position on ethical behavior. This issue was noted and reported in our audit comments last year.

2007-6 CONFLICT OF INTEREST POLICY - CONTINUED

Effect: The Agency's internal control design lacks a formal position on ethical behavior.

Recommendation: It is recommended that the Agency adopt a formal conflict of interest policy.

Corrective Action Response: We intend to adopt a conflict of interest policy which addresses these concerns before September 30, 2008.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiencies described above as 2007-1, 2007-2, and 2007-3 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Shiawassee Area Transportation Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

2007-7 SUPPORTING DOCUMENTATION RETENTION

Criteria: Supporting documents for all financial transactions should be retained and available for audit.

Condition: During the course of the audit, it was noted that supporting documentation was not retained for reclassifying journal entries and for the authorized pay rate of the manager.

Effect: The Agency's internal control over retention of supporting documentation is not as strong as it could be.

Recommendation: It is recommended that supporting documentation is retained for all journal entries and that the Agency keep a record of the pay rate for all employees, which is authorized by the Board.

Corrective Action Response: We have already begun listing pay rates for all employees which have been authorized by the Board as part of the agenda item. Documentation is now being retained for all journal entries.

2007-8 PROCESSING OF DATA

Criteria: Check numbers of the Agency should not be duplicated.

Condition: During the course of our audit, it was noted that certain check numbers on the bank statement were duplicated. The check stock of the Agency is not prenumbered, instead check numbers are entered into the computer system. The computer system being used by the Agency did not stop the Agency from repeating check numbers, and as a result an entire sequence of check numbers was repeated.

Effect: The Agency's internal control design lacks the appropriate controls that would verify that check numbers would not be duplicated.

Recommendation: It is recommended that controls be put in place to assure that check numbers are not repeated.

Corrective Action Response: We have already remedied this situation.

2007-9 PUBLIC TRANSPORTATION MANAGEMENT SYSTEM (PTMS) REPORTS

Criteria: The filing of the Agency's PTMS reports with the Bureau of Passenger Transportation should accurately reflect the financial statements of the Agency.

Condition: During our review of the Agency's PTMS reports, it was noted that ineligible expenses reported contradicted the Agency's revenue and/or expenses.

Effect: The Agency's internal controls over financial reporting were not able to detect contradictions in the Agency's PTMS reports. These noted contradictions within the PTMS reports were immaterial to the financial statements as a whole and therefore were not adjusted during the audit process.

Recommendation: It is recommended that the Agency accurately complete the PTMS reports to be filed with the Bureau of Passenger Transportation.

Corrective Action Response: We intend to consider contracting with a vendor to assist in the preparation of PTMS reports prior to our FY 2008 audit.

This report is intended for the information of management and the Board of Directors of the Shiawassee Area Transportation Agency, the Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

January 18, 2008